

## Message Text

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ACTION EB-07

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FM AMEMBASSY BELGRADE

TO AMEMBASSY ATHENS PRIORITY

SECSTATE WASHDC 3270

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ATHENS FOR MR. MAYS

E.O. 11652: N/A

TAGS: EINV, OTRA

SUBJECT: WRAPUP REPORT: VISIT TO YUGOSLAVIA OF OPIC PRESIDENT

MARSHALL T. MAYS, JUNE 16-20, 1975

1. SUMMARY: FIRST VISIT TO YUGOSLAVIA OF OPIC PRESIDENT MAYS PROVIDED OPPORTUNITIES FOR EXTENSIVE DISCUSSIONS WITH GOY LEADERS, INCLUDING PREMIER BIJEDIC, ON FURTHER DEVELOPMENT OF US-YUGOSLAV JOINT VENTURES. YUGOSLAVS TERMED ENERGY, MINERALS EXPLOITATION AND PROCESSING, AGRICULTURE, FOOD PROCESSING AND TOURISM AS AREAS WHERE AMERICAN INVESTMENT WILL BE PARTICULARLY WELCOME, AND PREDICTED EASIER CONDITIONS FOR REPATRIATION OF EARNINGS AND REINVESTMENT. SOME AMERICAN BANKS MAY BE PERMITTED TO OPEN REPRESENTATIVE OFFICES LATER THIS YEAR. YUGOSLAVS AGREED ON NEED FOR PROMOTION AND TRYOUT OF JOINT PROJECTS ON THIRD MARKETS. PARTLY AS RESULT OF WELL-ATTENDED PRESS CONFERENCE, DAILIES AND ECONOMIC JOURNALS HAVE TO DATE PUBLISHED 15 VERY POSITIVE ARTICLES ON PROMINENT PAGES. WARMTH OF RECEPTION MAYS RECEIVED IS REFLECTION

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OF STRONG YUGOSLAV INTEREST IN ATTRACTING U.S. INVESTMENT, AND

PERHAPS ALSO OF HOPE HE WILL SERVE AS CONDUIT TO AMERICAN FINANCIAL COMMUNITY FOR PURPOSES CORRECTING MISAPPREHENSIONS ABOUT YUGOSLAV FINANCIAL POSITION. END SUMMARY.

2. OVERSEAS PRIVATE INVESTMENT CORPORATION PRESIDENT MARSHALL T. MAYS' VISIT TO YUGOSLAVIA JUNE 16 TO 20 ENCOMPASSED CALL ON PREMIER DZEMAL BIJEDIC; FEC-ARRANGED WORKING LUNCH AT BRIONI HOTEL (PULA) WITH SECRETARY FOR FINANCE MOMCILO CEMOVIC, GOVERNOR OF NATIONAL BANK BRONISLAV COLANOVIC, AND SENIOR OFFICIALS OF YUGOSLAV REPUBLICS; CALLS ON FEC (CABINET) MEMBERS DUSAN ILIJEVIC (RESPONSIBLE FOR ENERGY AND INDUSTRY) AND JANKO SMOLE (RESPONSIBLE FOR RELATIONS WITH INTERNATIONAL ECONOMIC ORGANIZATIONS); CALLS ON PRESIDENT OF ECONOMIC CHAMBER ILIJA VAKIC AND ASSISTANT SECRETARY FOR FINANCE STOJILKOVIC; AND VISITS TO TWO JOINT VENTURES (GILLETTE-JUGOKOMERC, AND CORN PRODUCTION SYSTEMS-IPK OSIJEK).

3. AMBASSADOR ACCOMPANIED ON BIJEDIC AND OTHER CABINET-LEVEL CALLS AND HOSTED OFFICIAL DINNER.

4. MR. MAYS REVIEWED OPIC OVERALL PROGRAM AND PROGRAM IN YUGOSLAVIA; EXPRESSED OPIC DESIRE TO FACILITATE AND PROMOTE ADDITIONAL US INVESTMENTS HERE; AND TO SERVE AS "COUNSELOR" TO EXISTING PROJECTS ENCOUNTERING PROBLEMS. HE SOLICITED SUGGESTIONS AS TO ECONOMIC BRANCHES AND INDIVIDUAL PROJECTS WHICH MAY BE PARTICULARLY GOOD CANDIDATES FOR NEW INVESTMENT. HE SUGGESTED TWO STEPS GOY MIGHT TAKE, WHICH WOULD BE HELPFUL IN ENCOURAGING AMERICAN FIRMS TO CONSIDER JOINT VENTURES IN YUGOSLAVIA: (1) AMEND LEGISLATION TO PROVIDE MORE FLEXIBILITY FOR REPATRIATION OF EARNINGS (AT THIS TIME, ONLY HARD CURRENCY EARNINGS ARE ELIGIBLE) AND; (2) PERMIT AMERICAN BANKS TO OPEN BRANCH OFFICES, THUS AFFORDING POTENTIAL US INVESTORS OPPORTUNITY THEY TRADITIONALLY SEEK TO CONSULT WITH A US BANKER ON THE SPOT.

5. GOY LEADERS, INCLUDING PREMIER BIJEDIC, ALL EXPRESSED APPRECIATION FOR OPIC ROLE AND FOR RAPID DEVELOPMENT IN INVESTMENT RELATIONS SINCE CONCLUSION OF INTERGOVERNMENTAL AGREEMENT IN 1973. THEY NOTED THAT US NOW IN THIRD PLACE--AFTER FRG AND ITALY--IN TERMS OF INVESTMENT AMOUNT, BUT THAT IF NUMEROUS ARRANGEMENTS NOW UNDER ADVANCED NEGOTIATION MATERIALIZE (PARTICULARLY DOW-INA PETRO-CHEMICAL VENTURE), US WOULD BE FAR AHEAD IN FIRST PLACE. IT WAS LIMITED OFFICIAL USE

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POINTED OUT THAT YUGOSLAVIA WISHED TO DEVELOP RELATIONSHIP FURTHER, INCLUDING COOPERATIVE VENTURES ON THIRD MARKETS (PARTICULARLY IN LDC'S).

6. SMOLE COMPLAINED THAT FOREIGN INVESTMENT HAS UP TO NOW NOT BEEN SUFFICIENTLY CONCENTRATED ON "ESSENTIAL AREAS" SUCH AS BUILD-UP OF BASIC RESOURCES AND OF UNDERDEVELOPED AREAS OF THE COUNTRY, AND SUPPLY TO YUGOSLAV FIRMS OF ADVANCED TECHNOLOGY AND MANAGEMENT

METHODS.

7. HE--AS WELL AS COLANOVIC, ILIJEVIC AND VAKIC--IDENTIFIED FOLLOWING AS PRINCIPAL BRANCHES OF YUGOSLAV ECONOMY IN WHICH GOY WOULD LIKE TO SEE MORE AMERICAN INVESTMENT: (1) EXPLOITATION AND PROCESSING OF NONFERROUS AND FERROUS METALS; (2) NON-METALLIC MINERALS, SUCH AS COAL; (3) ENERGY, INCLUDING OIL AND ELECTRIC POWER DEVELOPMENT; (4) FOOD AND FODDER PRODUCTION, WITH OBJECTIVE OF RAISING YIELDS, AND PROMOTING YUGOSLAV SELFSUFFICIENCY AND EXPORT; (5) FOOD PROCESSING, INCLUDING CANNING AND FREEZING; AND (6) TOURISM. PREMIER BIJEDIC ALSO MENTIONED AUTOMOBILE MANUFACTURING, AND EXPRESSED HOPE GENERAL MOTORS OR FORD MIGHT PERHAPS EVENTUALLY ASSEMBLE CARS HERE, FOR SALE DOMESTICALLY AND FOR EXPORT.

8. SPECIFIC JOINT VENTURE IDEAS YUGOSLAV OFFICIALS SURFACED INCLUDED JOINT INVESTMENT, MANAGEMENT AND MARKETING ARRANGEMENTS FOR INDIVIDUAL HOTELS AND TOURIST COMPLEXES ALONG ADRIATIC COAST, IN SCENIC INTERIOR LOCATIONS, AND IN BELGRADE. COLANOVIC REFERRED TO ABOUT 25 QUALITY HOTELS IN GOOD LOCATIONS FOR WHICH ADVANCED PLANNING OR CONSTRUCTION WERE UNDER WAY, BUT WHICH FACED SHORTAGES OF INVESTMENT FUNDS. BIJEDIC AND ILIJEVIC EXPRESSED VIEW THAT JOINT US-YUGOSLAV CONSTRUCTION OF A HOTEL MIGHT PROVIDE VERY USEFUL EXPERIENCE FOR FUTURE JOINT CONSTRUCTION PROJECTS IN MIDDLE EAST AND OTHER LDC'S. VAKIC AND YUGOSLAV BUSINESS EXECUTIVES PRESSED FOR NEW DELUXE HOTEL PROJECT FOR BELGRADE. MAYS SUGGESTED FEASIBILITY STUDY DESIGNED TO TEST WHETHER THERE IS SUFFICIENT POTENTIAL MARKET IN BELGRADE FOR SUCH A HOTEL.

9. AMBASSADOR SUGGESTED JOINT VENTURES FOR CONSTRUCTION OF CONTAINER FACILITIES IN ADRIATIC PORTS, AS WELL AS FOR OTHER ASPECTS OF CONTAINERIZATION BASED ON A RECENT MATSON LINE INITIATIVE ALONG THESE LINES, AND SMOLE AGREED WITH AMBASSADOR'S COMMENT THAT SUCH COOPERATION COULD LEAD TO COOPERATION IN CONSTRUCTION OF BADLY-NEEDED LIMITED OFFICIAL USE

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CONTAINER FACILITIES IN OTHER MEDITERRANEAN PORTS.

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ATHENS FOR MR. MAYS

10. IPK-OSIJEK--YUGOSLAVIA'S SECOND LARGEST INDUSTRIAL/AGRICULTURAL KOMBINAT--TOLD MR. MAYS THAT THEY WERE LOOKING FOR STRONG US PARTNERS TO LAUNCH (A) CANNED VEGETABLE OPERATION; (B) NEW 25,000 HEAD BABY BEEF RAISING FACILITY, UTILIZING, IN PART, RECYCLED FEED; (C) EXPAND JOINT VENTURE IN SUDAN FOR PRODUCTION ON IRRIGATED LAND OF WHEAT, SOYBEANS, SUNFLOWERS, AND; (D) BEGIN JOINT COCOA PRODUCTION IN NIGERIA.

11. VAKIC STATED THAT LONG-PROMISED ECONOMIC CHAMBER COMPILATION OF INDIVIDUAL YUGOSLAV ENTERPRISES' IDEAS FOR JOINT VENTURES WITH US WOULD SHORTLY BE DELIVERED TO EMBASSY.

12. IDEAS FOR EFFECTIVE METHODS OF PROMOTING FUTURE INVESTMENT, DISCUSSED BY MAYS AND STOJILKOVIC, INCLUDED (A) ENCOURAGEMENT OF ECONOMIC JOURNALS SUCH AS FORTUNE TO PUBLISH ARTICLES ON YUGOSLAV SELFMANAGEMENT SYSTEM, JOINT VENTURE LEGISLATION, INVESTMENT OPPORTUNITIES, AND INVESTMENT EXPERIENCES; AND (B) CONVENING SEMINARS OF ACCOUNTANTS, LAWYERS AND OTHER PROFESSIONALS TO PROMOTE UNDER-LIMITED OFFICIAL USE

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STANDING OF YUGOSLAV PRACTICE, AND HOW TO BRIDGE DIFFERENCES WITH US PRACTICE.

13. YUGOSLAV OFFICIALS RESPONDED RATHER POSITIVELY TO MAYS' SUGGESTIONS OF LEGISLATIVE STEPS GOY MIGHT TAKE TO ENCOURAGE INVESTMENT. SMOLE AND COLANOVIC STATED THAT CHANGE PROVIDING INCREASED FLEXIBILITY FOR REPATRIATION OF PROFITS IS UNDER ADVANCED CONSIDERATION. SMOLE EXPLAINED THAT JOINT VENTURES WOULD BE DIVIDED

INTO TWO CATEGORIES: (A) ONE CATEGORY COMPOSED OF BRANCHES IN WHICH EXPORT WAS ESSENTIAL FOR PURPOSE OF STRENGTHENING YUGOSLAV BALANCE OF PAYMENTS. IN THIS CATEGORY, REPATRIATION OF EARNINGS WOULD CONTINUE TO BE TIED TO FOREIGN EXCHANGE RECEIPTS. (B) ANOTHER CATEGORY OF BRANCHES, IN WHICH EXPORT WAS COMPARATIVELY IMPRACTICAL AND FOR WHICH GOY HAD OTHER PRIORITY OBJECTIVES, SUCH AS TO SAVE ON IMPORTS OR TO DEVELOP CRITICALLY NEEDED BASIC RESOURCES. IN THIS CATEGORY, REPATRIATION OF EARNINGS WOULD NOT BE TIED TO FOREIGN EXCHANGE RECEIPTS. SMOLE SAID NEW LEGISLATION WOULD ALSO MAKE IT CONSIDERABLY EASIER FOR FOREIGN PARTNER TO REINVEST EARNINGS.

14. IN REGARD TO BANK BRANCHES, BIJEDIC RESPONSE WAS (AS ON TRIP TO US) BASICALLY POSITIVE, BUT HE WISHED TO LEAVE DETAILS TO THE EXPERTS.

COLANOVIC TOLD AMBASSADOR AND MAYS THAT "SOME IMPROVEMENT IN CONDITIONS

IS TO BE EXPECTED THIS YEAR"--PERHAPS A DECISION TO PERMIT A LIMITED NUMBER OF FOREIGN BANKS TO OPEN REPRESENTATIVE OFFICES.

15. ON JOINT VENTURES, SMOLE STATED GOY CONSIDERS \$500 MILLION DOW-INA PROJECT OF GREATEST IMPORTANCE, BUT THAT HE WAS SOMEWHAT WORRIED BY DOW PRESSURE FOR EXTRA TAX AND CUSTOMS INCENTIVES NOT MADE AVAILABLE

TO OTHER ENTERPRISES. GOY MIGHT PERHAPS CONSIDER SPECIAL FACILITIES FOR ENERGY IMPORTS BY THE VENTURE, BUT WAS VERY RELUCTANT TO ENTER INTO OTHER EXTRA ARRANGEMENTS FOR FEAR OF BEING CHARGED WITH DISCRIMI-

NATORY TREATMENT. AMBASSADOR AND MAYS COMMENTED THAT NEGOTIATIONS FOR SUCH LARGE VENTURES ARE ALWAYS COMPLEX AND MANY-SIDED, AND THAT CONCERNS THEMSELVES WILL HOPEFULLY WORK OUT MUTUALLY ACCEPTABLE ARRANGEMENTS.

16. YUGOSLAVIA COMMERCE-GILLETTE JOINT VENTURE OFFICIALS REPORTED LIMITED OFFICIAL USE

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THAT LACK OF POSSIBILITY--UNDER EXISTING LEGISLATION--TO REPATRIATE EARNINGS, AS WELL AS SOME COMMERCIAL DIFFERENCES OF VIEW HAD DISCOURAGED GILLETTE FROM INCREASING ITS EQUITY FROM 20 TO 49 PERCENT; FROM CONTRIBUTING LATEST TECHNOLOGY; AND FROM DEVELOPING NEW PRODUCTION FACILITIES FOR MORE ADVANCED SHAVING PRODUCTS. THEY REPORTED WORKING ACTIVELY TO INDUCE GOY TO AMEND LEGISLATION. MAYS STATED HE WOULD DISCUSS PROBLEMS WITH GILLETTE IN US, AND EXPRESSED HOPE THAT WAY WOULD BE FOUND TO DEVELOP SOME FREELY TRANSFERABLE EARNINGS--PERHAPS THROUGH EXPORT OF PRODUCTS OTHER THAN RAZOR BLADES. (NEWLY ARRIVED GILLETTE REPRESENTATIVE--WHO HAD NOT PARTICIPATED IN TALKS WITH MAYS--TOLD US JUNE 24 THAT GILLETTE MUCH LESS CONCERNED ABOUT RESTRICTIONS ON EARNINGS TRANSFERS THAN ABOUT RESTRICTIONS ON REINVESTMENT. HE CONFIDED THAT, IF THIS PROBLEM IS RESOLVED, GILLETTE MAY BE PREPARED TO EXPAND JOINT PRODUCTION TO ENCOMPASS NEWER SHAVING ARTICLES. FOR MORE DETAILED

OUTLINE OF GILLETTE REP COMMENTS, SEE SEPTTEL.)

17. IPK-CPS JOINT VENTURE PARTICIPANTS TOLD MAYS THAT TECHNICALITIES IN YUGOSLAV LEGISLATION AFFECTING SPARE PARTS IMPORTS, SLOWNESS OF US MANUFACTURERS IN FILLING MACHINERY AND PARTS ORDERS, AND BAD WEATHER HAD GOTTEN VENTURE OFF TO SLOW START, AND MISUNDERSTANDINGS AS TO ACCOUNTING METHODS HAD LED TO RATHER SERIOUS RECENT DISAGREEMENTS--NOW RESOLVED. NEVERTHELESS, PARTNERS NOW CONSIDERING ADDITIONAL INVESTMENTS AND EXPANSION OF OPERATIONS FROM CORN TO OTHER CROPS, AND FROM OSIJEK AREA TO OTHER AREAS OF YUGOSLAVIA.

18. MAYS VISIT RECEIVED EXCELLENT COVERAGE IN BELGRADE AND PROVINCIAL DAILIES AND ECONOMIC NEWSPAPER PRIVREDNI PREGLED. NUMBER OF ARTICLES HAS REACHED 15 (20 INCLUDING TANJUG), BEGINNING WITH MAYS INTERVIEW PRIOR TO HIS DEPARTURE FROM US. ARTICLES EMPHASIZED DESIRE OF GOY AND YUGOSLAV ECONOMY TO DO EVERYTHING POSSIBLE TO FURTHER EXPAND INVESTMENT COOPERATION WITH US, AND US INTEREST IN RELATIONSHIP.

19. COMMENT: EXTRAORDINARY WARMTH OF RECEPTION MAYS RECEIVED IS REFLECTION OF YUGOSLAV APPRECIATION OF FAVORABLE IMPACT WESTERN INVESTMENT CAN HAVE ON YUGOSLAV ECONOMY, AND OF STRONG INTEREST IN ATTRACTING AMERICAN INVESTMENT..IT SEEMS TO US ALSO TO REFLECT DESIRE TO HAVE MAYS SERVE AS CHANNEL TO NEW YORK AND OTHER US FINANCIAL COMMUNITY, FOR PURPOSE OF CORRECTING MISAPPREHENSIONS ABOUT YUGOSLAV FINANCIAL POSITION. (FOR SUMMARY OF BRIEFINGS ON YUGOSLAV ECONOMY LIMITED OFFICIAL USE

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RECEIVED BY MAYS AND OTHER RECENT US VISITORS, SEE SEPTTEL.)  
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